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FM AMEMBASSY PANAMA
TO RUEHC/SECSTATE WASHDC 7417
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUEHBO/AMEMBASSY BOGOTA 2172
RUEHCV/AMEMBASSY CARACAS 0943
RUEHMD/AMEMBASSY MADRID 0251
RUEHME/AMEMBASSY MEXICO 2881
RUEHOT/AMEMBASSY OTTAWA 0201
RUCPDO/DEPT OF COMMERCE WASHDC
RUEAUSA/DEPT OF HHS WASHDC
RUEATRS/DEPT OF TREASURY WASH DC
RUEHXC/ALL US CONSULATES MEXICO COLLECTIVE

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SUBJECT: RETIREES & INVESTORS FLOCK TO SUNNY, SAFE &
DOLLARIZED PANAMA

This is part one of a two part series on Residential Tourism.
Part I introduces the industry and discusses the
implications for the USG. Part II describes the economic and
political implications for Panama.

11. SUMMARY. With an estimated 30 million Americans
scheduled to retire in 2006 (and every year for the next 18),
the race is on for affordable attractive property in mild
climates. Panama is set to become the third most popular
destination for American expatriates in the hemisphere
following Mexico and Costa Rica. American baby boomers are
also joined by their Canadian counterparts. Investors
include retirees, working adults in their 40's and 50's
seeking an investment/winter property with appreciation
potential and those intrepid folks seeking employment in a
booming real estate market. These Amcits are requesting
assistance from the USG in resolving property disputes,
renewing passports, where to invest and how to use the
internet. END SUMMARY

HAVE WE GOT A DEAL FOR YOU

12. (U) In 1994, Panama passed tourism incentive laws offering
20-year tax exemptions, permanent residency visas and duty
free importation of vehicles and household effects for
investors in the tourism industry. Nine years later, Panama
was named the number one place to retire by International
Living Magazine and similar publications. Websites abound
with advice, information and advertising. American property
developer and Director of Prima Panama, Sam Taliaferro,
credits Panama's booming expatriate property market to the
nexus of the internet, America's most populous generation,
the baby boomers, reaching retirement age and excellent
marketing.

13. (U) From high rise city apartments to beachfront
condominiums to inland acreage estates, Panama has a
lifestyle option for everyone. Panama offers a mild climate,
no hurricanes, few earthquakes, low cost of living, a
dollarized economy and a stable, democratic government. Elda
Sanson, General Manager of the Panama Real Estate Association
estimates new housing prices for Panama City at \$1000/square
meter and as low as \$200/square meter in the interior.
Undeveloped land can be had for \$80/square meter. Taliaferro
estimates land prices outside a planned development at \$10 to
\$15/square meter and within a planned development at \$30 to
\$100/square meter. Residential Tourism magazine Paradise

Panama published the following average prices: Beach homes (2500 sq/ft) \$400,000, Inland/Mountain homes (2500 sq/ft) \$245,000, Island Home (3500 sq/ft) \$650,000 and High Rise City Apartment (1400 sq/ft) \$185,000.

WHOA CANADA

14. (U) Canadian econoff Walker Young told Econoff that the Canadian Embassy is seeking wardens in David, Boquete, Bocas del Toro and Veraguas due to burgeoning communities of Canadian citizens in these areas. Taliaferro confirmed that 80% of expatriate buyers are North American. According to Sanson, other expatriate real estate seekers include upper class Colombians, Venezuelan businesses and the Spanish. UK Embassy Officer Penny Walsh, told Econoff that British interest in Panama was limited as low cost retirement options continued to be available in Spain and Greece with new sites developing in Turkey and former Yugoslavia.

CAVEAT EMPTOR

15. (U) Many expatriate investors are making big ticket purchases with little or no research, on the strength of internet marketing and a herd mentality. Former Emboff and now sales agent for property developer magnate Empresas Bern and a Canadian sales agent for Vista Mar both warned Econoff of delivery standards below U.S. norms, problems with the quality of workmanship and timeliness of delivery. For example, new properties in Panama generally do not include

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appliances or hot water heaters and measurement norms for square meterage can include non-living and common spaces. For the part time owner, reliable property managers and maintenance personnel required by absentee landlords are not readily available. However, this represents an additional business opportunity for enterprising expatriates.

16. (U) For many expatriates, this is their first experience living outside the U.S., and they are struggling with such basics as using the internet to manage their finances remotely. Post has received several calls from Amcits with property disputes expressing surprise at the lack of redress available through the local government and judiciary. The most aggressive are Amcits who purchased in Panama many years ago and are dismayed at the development and what they see as encroachment on "their" land by new neighbors and large scale development.

17. (U) ACS staff note that residents of Boquete in the Chiriqui province, complained of isolation, having to travel to Panama City to process Panamanian immigration paperwork and driver's licenses, and confusion about Panamanian requirements for obtaining "retired tourist" status. Residents of Boquete also complained of having to travel to Panama City for consular services.

AMBASSADOR HOLDS TOWNHALL MEETING

18. (U) Ambassador Eaton held a January 25th Town hall Meeting for American Citizens in Boquete, Chiriqui province. Approximately 55 of the estimated 600 Amcit residents attended. Attendees asked the Ambassador about the expansion of the Panama Canal, the possibility of a U.S. Consulate in Chiriqui, U.S. government programs in Chiriqui province, continued Panamanian incentives for retirees, and the on-going Free Trade Agreement negotiations between the U.S. and Panama. The Ambassador announced the designation of a vice-consul as Special Envoy to Chiriqui Province who will visit the area regularly.

NO ONE WANTS TO PAY ANY TAX

¶9. (U) One local real estate agent reports that most foreigners are advised to establish a Panamanian corporation and to purchase their Panamanian property through this corporation. This enables the property to be sold by selling the corporation itself which a) avoids the reevaluation of the property b) avoids a 2% transfer tax and c) preserves the tax exemption offered to incent the original buyer and d) protects the asset from any personal liability claims against the owner. Real Estate Attorney, Ronalda Matakelly, adds that probate is the main reason to title one's property in the name of a corporation. Probating a U.S. will in Panama is very difficult and Panama does not recognize any rights of survival. To ensure a smooth transition of one's Panamanian assets to a U.S. citizen heir, the Amcit buyer puts the shares of his/her Panamanian corporation into his/her U.S. family or living trust.

¶10. (U) Although Amcit investors can receive up to 20 year tax exemptions in Panama, no American citizen is exempt from his/her obligation to report worldwide earnings to the IRS. Of all the issues raised at the January 25th townhall meeting, not one question was asked related to income tax forms or filing assistance from the Embassy. On the eve of the townhall meeting Conoff and Econoff had dinner with an Amcit and retired Care International Aid worker who said she did not want the Embassy to engage in outreach programs to the area. "If we need something from the U.S. government, we'll ask."

¶11. (U) Sanson claims that many expatriates engage in small business and employment activities, including real estate sales and related services to other expatriates for which they do not have the requisite Panamanian work permits or licenses.

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COMMENT

¶12. (U) Whether these investments will be lucrative in the long run remains to be seen. Many owners are evaluating their appreciation based on the value of the equivalent, new unit when the secondary market for these properties remains in its infancy. However, it is maturing rapidly. Speculators are buying up residential units "off the plan" and flipping them just before they are ready for occupancy for a 20 to 30% return.

¶13. (U) For now, expatriate retirees are seeking active retirement lifestyles. However, the inevitable prospects of declining health and lone, surviving spouses will be problematic for their relatives in the U.S., the Embassy's consular section and Panama. Sophisticated medical care outside Panama City and assisted living facilities are currently unavailable. The growing expatriate Amcit population may also seek to get the USG to make Medicare benefits portable for foreign (and often cheaper) health care.
EATON